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Reporting separate investment fund option information of defined-contribution pension plans; Practice bulletin, 12

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

Practice Bulletin 12

September 1994

Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans

An Interpretation of Paragraph 3.23*k* of the Audit and Accounting Guide *Audits of Employee Benefit Plans*

Accounting Standards Executive Committee
and
Employee Benefit Plans Committee

AICPA
American Institute of Certified Public Accountants

NOTICE TO READERS

Practice bulletins of the Accounting Standards Division are issued to disseminate the views of the Accounting Standards Executive Committee on narrow financial accounting and reporting issues. The issues dealt with are those that have not been and are not being considered by the Financial Accounting Standards Board or the Governmental Accounting Standards Board. Practice bulletins present the views on such issues of at least two-thirds of the members of the Accounting Standards Executive Committee, the senior technical body of the AICPA authorized to speak for the AICPA on financial accounting and reporting.

Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles *in the Independent Auditor's Report,* identifies AICPA practice bulletins as a source of established accounting principles generally accepted in the United States that an AICPA member should consider if the accounting treatment of a transaction or event is not specified by a pronouncement covered by rule 203 of the AICPA Code of Professional Conduct. If relevant to the circumstances of the transaction or event, the accounting treatment specified by this practice bulletin should be used, or the member should be prepared to justify the departure.

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Practice Bulletin 12

Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans

Introduction

1. The Accounting Standards Executive Committee (AcSEC) and the Employee Benefit Plans Committee of the American Institute of Certified Public Accountants (AICPA) are aware that paragraph 3.23*k* of the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), regarding the reporting of separate investment fund option information of defined-contribution pension plans, is confusing to financial statement preparers and auditors and has created a divergence of practice. As a result, these Committees believe that it is desirable to provide clarification of the reporting requirements set forth in paragraph 3.23*k* of the Guide.

2. Paragraph 3.23*k* of the Guide establishes requirements for the reporting of separate investment fund option information of defined-contribution pension plans. Paragraph 3.23*k* requires plans that provide for participant-directed investment programs (for example, equity, debt, or employer securities) to disclose amounts relating to those individual programs as a separate fund, either in columnar form in the financial statements (by participant-directed and nonparticipant-directed categories) or in the related disclosures, or by separate financial statements for each program.

3. A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives. The available alternatives are usually pooled fund vehicles, such as registered investment companies or commingled funds of banks, that provide varying types of investments—for example, equity funds or fixed-income funds. The participant can select among the various available alternatives and periodically change that selection. Each investment alternative provided is

considered a separate investment fund option. For example, if the plan provides two bond funds, an equity fund, a fixed-income fund, and an employer securities fund, the plan would offer five separate investment fund options.

Conclusion

4. The plan should disclose information about the net assets and significant components of the changes in net assets for each investment fund option. If an investment fund option contains both participant-directed and nonparticipant-directed investments, the participant-directed and nonparticipant-directed portions should be disclosed separately.

5. Aggregation of investment fund options with similar investment objectives is not appropriate except that, for materiality considerations, any individual investment fund option with net assets of less than 5 percent of the plan's total net assets may be combined with funds having similar investment objectives. If investment fund options are aggregated, that fact should be disclosed. If the plan provides for self-directed investing whereby each participant selects his or her own specific investments, such as individual stocks or bonds, changes in these investments may be aggregated and presented in one column as one fund option.

6. The information about the net assets and the significant components of the changes in net assets for each investment fund option is a required part of the basic financial statements. Such information may be presented in a multicolumnar format on the face of the financial statements, in the notes to the financial statements, or in separate financial statements for each investment fund option. Single line item presentation of the net assets available for benefits may be appropriate, unless an individual investment fund option has a material asset or liability other than investments that requires disclosure. An illustration of a single line item presentation in the statement of net assets available for benefits, along with a multicolumnar presentation of the changes in net assets available for benefits for each fund option, is presented in the Appendix to this practice bulletin.

Effective Date

7. This practice bulletin is effective for plan years beginning after December 15, 1993. Earlier application is encouraged.

Appendix
Illustration of 401(k) Plan Financial Statements

A.1 This appendix illustrates certain applications of the provisions of chapter 3 of the Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide) that apply for the annual financial statements of the hypothetical XYZ Company 401(k) Plan. The illustration includes both a single line item presentation and an alternative multicolumnar presentation of fund information in the statement of net assets available for benefits, along with a multicolumnar presentation of the changes in net assets available for benefits for each investment fund option. It does not illustrate other provisions of chapter 3 of the Guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations.

A.2 Although generally accepted accounting principles (GAAP) encourage but do not require comparative financial statements, the Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

A.3 ERISA and U.S. Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See appendix A of the Guide for a further discussion of the ERISA and DOL requirements.

XYZ Company 401(k) Plan
Statement of Net Assets Available for Benefits

	December 31, 19X1	December 31, 19X0
Assets		
Investments:		
At fair value (Note B)		
Shares of registered investment companies:		
Prosperity Investments Common Stock Fund	$1,973,000	$2,600,000
Prosperity Investments Balanced Fund	3,949,000	3,500,000
XYZ Company Stock	655,000	200,000
Participant notes receivable	100,000	45,000
	6,677,000	6,345,000
At contract value (Note C)		
National Insurance Company Investment Contract #2012A, matures 12/31/X2	2,500,000	1,650,000
Total investments	9,177,000	7,995,000
Receivables:		
Employer's contribution	14,000	10,000
Participants' contributions	52,000	50,000
Total receivables	66,000	60,000
Total assets	9,243,000	8,055,000
Liabilities		
Accounts payable	10,000	20,000
Accrued expenses	15,000	—
Total liabilities	25,000	20,000
Net assets available for benefits	$9,218,000	$8,035,000

The accompanying notes are an integral part of these financial statements.

XYZ Company 401(k) Plan
Statement of Net Assets Available for Benefits With Fund Information
Year Ended December 31, 19X1

[Alternative presentation for statement of net assets available for benefits]

	Participant-Directed						*Nonparticipant-Directed*	
	Prosperity Stock Fund	*Prosperity Balanced Fund*	*XYZ Company Stock*	*Participant Notes*	*Investment Contract Fund*	*Other*	*XYZ Company Stock*	*Total*
Assets								
Investments, at fair value (Note B):								
Shares of registered investment companies:								
Prosperity Investments Common Stock Fund	$1,973,000	$ —	$ —	$ —	$ —	$ —	$ —	$1,973,000
Prosperity Investments Balanced Fund	—	3,949,000	—	—	—	—	—	3,949,000
XYZ Company Stock	—	—	455,000	—	—	—	200,000	655,000
Participant notes receivable	—	—	—	100,000	—	—	—	100,000
	1,973,000	3,949,000	455,000	100,000	—	—	200,000	6,677,000
Investments, at contract value (Note C):								
National Insurance Company Investment Contract #2012A, matures 12/31/X2	—	—	—	—	2,500,000	—	—	2,500,000
Total investments	1,973,000	3,949,000	455,000	100,000	2,500,000	—	200,000	9,177,000
Receivables:								
Employer's contribution	—	—	—	—	—	14,000	—	14,000
Participants' contributions	—	—	—	—	—	52,000	—	52,000
Total receivables	—	—	—	—	—	66,000	—	66,000
Total assets	1,973,000	3,949,000	455,000	100,000	2,500,000	66,000	200,000	9,243,000
Liabilities								
Accounts payable	—	—	—	—	—	10,000	—	10,000
Accrued expenses	—	—	—	—	—	15,000	—	15,000
Total liabilities	—	—	—	—	—	25,000	—	25,000
Net assets available for benefits	$1,973,000	$3,949,000	$455,000	$100,000	$2,500,000	$41,000	$200,000	$9,218,000

accompanying notes are an integral part of these financial statements.

XYZ Company 401(k) Plan
Statement of Net Assets Available for Benefits With Fund Information
Year Ended December 31, 19X0

[Alternative presentation for statement of net assets available for benefits]

	Participant-Directed						*Nonparticipant-Directed*	
	Prosperity Stock Fund	*Prosperity Balanced Fund*	*XYZ Company Stock*	*Participant Notes*	*Investment Contract Fund*	*Other*	*XYZ Company Stock*	*Total*
Assets								
Investments, at fair value (Note B):								
Shares of registered investment companies:								
Prosperity Investments Common Stock Fund	$2,600,000	$ —	$ —	$ —	$ —	$ —	$ —	$2,600,000
Prosperity Investments Balanced Fund	—	3,500,000	—	—	—	—	—	3,500,000
XYZ Company Stock	—	—	100,000	—	—	—	100,000	200,000
Participant notes receivable	—	—	—	45,000	—	—	—	45,000
	2,600,000	3,500,000	100,000	45,000	—	—	100,000	6,345,000
Investments, at contract value (Note C):								
National Insurance Company Investment Contract #2012A, matures 12/31/X2	—	—	—	—	1,650,000	—	—	1,650,000
Total investments	2,600,000	3,500,000	100,000	45,000	1,650,000	—	100,000	7,995,000
Receivables:								
Employer's contribution	—	—	—	—	—	10,000	—	10,000
Participants' contributions	—	—	—	—	—	50,000	—	50,000
Total receivables	—	—	—	—	—	60,000	—	60,000
Total assets	2,600,000	3,500,000	100,000	45,000	1,650,000	60,000	100,000	8,055,000
Liabilities								
Accounts payable	—	—	—	—	—	20,000	—	20,000
Net assets available for benefits	$2,600,000	$3,500,000	$100,000	$45,000	$1,650,000	$40,000	$100,000	$8,035,000

The accompanying notes are an integral part of these financial statements.

XYZ Company 401(k) Plan
Statement of Changes in Net Assets Available for Benefits With Fund Information
Year Ended December 31, 19X1

	Participant-Directed						Nonparticipant-Directed	
	Prosperity Stock Fund	*Prosperity Balanced Fund*	*XYZ Company Stock*	*Participant Notes*	*Investment Contract Fund*	*Other*	*XYZ Company Stock*	*Total*
Additions								
Additions to net assets attributed to:								
Investment income								
Net appreciation in fair value of investments	$ 107,000	$ 92,000	$ 40,000	$ —	$ —	$ —	$ 40,000	$ 279,000
Interest	—	205,000	—	10,000	224,000	—	—	439,000
Dividends	100,000	65,000	—	—	—	—	—	165,000
	207,000	362,000	40,000	10,000	224,000	—	40,000	883,000
Less investment expenses	(10,000)	(20,000)	—	—	(20,000)	—	—	(50,000)
	197,000	342,000	40,000	10,000	204,000	—	40,000	833,000
Contributions:								
Participants'	296,000	612,000	307,000	—	246,000	52,000	—	1,513,000
Employer's	—	—	—	—	—	14,000	72,000	86,000
	296,000	612,000	307,000	—	246,000	66,000	72,000	1,599,000
Total additions	493,000	954,000	347,000	10,000	450,000	66,000	112,000	2,432,000
Deductions								
Deductions from net assets attributed to:								
Benefits paid to participants	400,000	494,000	30,000	—	210,000	—	10,000	1,144,000
Administrative expenses	25,000	45,000	3,000	—	25,000	5,000	2,000	105,000
Total deductions	425,000	539,000	33,000	—	235,000	5,000	12,000	1,249,000
Net increase prior to interfund transfers	68,000	415,000	314,000	10,000	215,000	61,000	100,000	1,183,000
Interfund transfers	(695,000)	34,000	41,000	45,000	635,000	(60,000)	—	—
Net increase (decrease)	(627,000)	449,000	355,000	55,000	850,000	1,000	100,000	1,183,000
Net assets available for benefits:								
Beginning of year	2,600,000	3,500,000	100,000	45,000	1,650,000	40,000	100,000	8,035,000
End of year	$1,973,000	$3,949,000	$455,000	$100,000	$2,500,000	$41,000	$200,000	$9,218,000

The accompanying notes are an integral part of these financial statements.

XYZ Company 401(k) Plan
Notes to Financial Statements

A. Description of Plan

The following description of the XYZ Company (Company) 401(k) Plan (Plan) provides only general information. Participants should refer to the Plan agreement for a more comprehensive description of the Plan's provisions.

1. *General.* The Plan is a defined-contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. *Contributions.* Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified defined-benefit or contribution plans. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. Additional amounts may be contributed at the option of the Company's board of directors. All employer contributions are invested in XYZ Company common stock. Contributions are subject to certain limitations.
3. *Participant accounts.* Each participant's account is credited with the participant's contribution and allocations of (*a*) the Company's contribution and (*b*) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. Forfeited balances of terminated participants' nonvested accounts are used to reduce future Company contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. *Vesting.* Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching and discretionary contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. *Investment options.* Upon enrollment in the Plan, a participant may direct employee contributions in 25 percent increments in any of four investment options.

a. Prosperity Investments Common Stock Fund—Funds are invested in shares of a registered investment company that invests mainly in common stocks.
b. Prosperity Investments Balanced Fund—Funds are invested in shares of a registered investment company that invests in corporate bonds, common stocks, and U.S. Government securities.
c. XYZ Company Stock—Funds are invested in common stock of XYZ Company.
d. National Insurance Company Investment Contract—Funds are invested in a guaranteed investment contract with an insurance company.

Participants may change their investment options quarterly.

6. *Participant notes receivable.* Participants may borrow from their fund accounts a minimum of $1,000 and to a maximum equal to the lesser of $50,000 or 50 percent of their account balance. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Notes fund. Loan terms range from one to five years or up to twenty-five years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the Plan administrator. Interest rates range from 6 percent to 10 percent. Principal and interest are paid ratably through monthly payroll deductions.
7. *Payment of benefits.* On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

B. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation and Income Recognition[1]

The Plan's investments are stated at fair value, except for its investment contract, which is valued at contract value (Note C). Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. The Company stock is valued at its quoted market price. Participant notes receivable are valued at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits are recorded when paid.

C. Investment Contract With Insurance Company[1]

In 19X0, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments (principally bank certificates of deposit) and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, which approximates fair value, as reported to the Plan by National. Contract value represents contributions made under the contract, plus earnings, less Plan withdrawals and administrative expenses.

D. Related-Party Transactions

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest. Fees paid by the Plan for the investment management services amounted to $105,000 for the year ended December 31, 19X1.

[1] In September 1994, the AICPA issued Statement of Position 94-4, ***Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans***, which may substantially change the way some defined-contribution pension plans report investment contracts.

E. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

F. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits according to the financial statements to Form 5500:

	December 31,	
	19X1	*19X0*
Net assets available for benefits per the financial statements	$9,218,000	$8,035,000
Amounts allocated to withdrawing participants	(50,000)	(35,000)
Net assets available for benefits per Form 5500	$9,168,000	$8,000,000

The following is a reconciliation of benefits paid to participants according to the financial statements to Form 5500:

	Year Ended December 31, 19X1
Benefits paid to participants per the financial statements	$1,144,000
Add: Amounts allocated to withdrawing participants at December 31, 19X1	50,000
Less: Amounts allocated to withdrawing participants at December 31, 19X0	(35,000)
Benefits paid to participants per Form 5500	$1,159,000

Amounts allocated to withdrawing participants are recorded on Form 5500 for benefit claims that have been processed and approved for payment prior to December 31 but not yet paid as of that date.

G. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated August 30, 19XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

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